Mr. Geismar is the President of Quantitative Investment Management, QIM, which he co-founded with CEO Jaffray Woodriff in 2003. Mr. Geismar and Mr. Woodriff first worked together in 1994, when Mr. Geismar was an assistant trader at Blue Ridge Trading. He then worked as an actuary and benefits consultant for Towers Perrin, Coopers & Lybrand and William M. Mercer until 1998, when he joined Capital One Financial as an analyst. In 2000, Mr. Geismar once again joined forces with Mr. Woodriff, assisting in the development of an equities investment program that led the two to co-found broker-dealer DHR.

ABOUT THE SUB-STRATEGY

+ A systematic, short-term managed futures trading strategy.
+ Approach has historically exhibited low levels of correlation to traditional market indices and longer-term managed futures strategies.
+ QIM is a commodity trading advisor with more than $4.4 billion in trading level as of December 31, 2012.

Identifying behavioral patterns, QIM’s short-term trading approach brings non-correlated potential to managed futures investors

QIM is one of the managers accessed by the Altegris Managed Futures Strategy Fund. Following is a Q&A about QIM’s philosophy and expertise managing a strategy substantially similar to that which is accessed by the mutual fund.

**ALTEGRIS: What is your background and the history of QIM?**

**QIM:** I am the president of Quantitative Investment Management, and I co-founded the firm along with Jaffray Woodriff and Greyson Williams. Jaffray Woodriff has been creating mathematical models to predict 24-hour price movements in the markets since 1991, when he was a student at the University of Virginia. Jaffray and I were roommates in 1994 while I was still a student at UVA and he was living in Charlottesville and working for a small commodity trading advisor (CTA). He and I reunited business-wise in early 2000—he had decided to leave Societe Generale, where he was a proprietary trader, and he asked me to move to New York and start a trading business with him. About a year later, we relocated back to Charlottesville, Virginia, where we both wanted to live. We just traded our money until October 2003, when a client approached us about managing money for them.

We now have 32 people at QIM. Jaffray does all the predictive research—all the models have been designed from the software that he built. Although he gets help from other people in the firm on some programming tasks, almost all the predictive modeling comes from him.
**ALTEGRIS**: What is the trading style for the strategy?

**QIM**: We consider ourselves a short-term CTA. Our average holding period is about six-and-a-half days, which is substantially shorter than the more traditional long-term trend following CTAs.

Our models are all designed to try to predict a 24-hour price change—the change from today’s open to tomorrow’s open. We think of these as pattern recognition models, and we even go so far as to say we believe these models have identified behavioral patterns in the markets. Our models have been chosen based on how well they have predicted prices over the last 30 years. It is also important that our models work well across all of the different markets that we trade. We currently trade in 61 different markets across six sectors—stock indices, interest rates, currencies, energies, metals and agricultural. All of our models work across all of these markets because at the end of the day it’s participants—humans—who are affecting the prices on a daily basis. Our models are able to pick up on these behavioral patterns and seek to predict what’s going to happen in the next 24 hours.

Historically, we have traded the most liquid markets the best—stock indices have always been our best sector. We believe that the more liquid the market is, the more market participants there are in that market. This means that the sample size we’re looking at is larger, which we think makes the behavioral patterns in those markets more predictable going forward. Of course, there is no guarantee that we will generate profits or avoid losses in the future. But historically, our track record has been a good indicator that our models do have a significant statistical edge in predicting market movements.

**ALTEGRIS**: What is the process for adding a model to your system?

**QIM**: We currently use about 1,100 models in our system, and all of our models are used identically for all of the 61 different markets. Jaffray has designed software that builds and tests models on historical data. The potential models that the software creates are evaluated on how well they have been able to predict the 24-hour price changes over the past 30 years across 61 different markets, and as long as the models do a good job in that prediction—and they’re somewhat uncorrelated to the models we’re already using—the models are candidates to be added to our system.

**ALTEGRIS**: What is your primary competitive edge?

**QIM**: I think our biggest edge is Jaffray. He’s built the system and he has been able to do something that no one else has ever done, as far as we’re concerned. He’s been able to create a system that historically has performed well and has done so in a very different manner—we historically have very low correlations to long-term trend followers, because we’re not looking for long-term trends. We’ve also noticed that we have very low correlations to the other short-term CTAs. So I think it all comes down to Jaffray and what he’s been able to do. He has been amazed that the patterns his system has identified have existed for more than 30 years. These behavioral patterns are very subtle—they’re not obvious or intuitive. And more importantly, no one else seems to have picked up on them and captured these inefficiencies like we have. Of course, there is no guarantee that these benefits will be realized in the future since past performance is not indicative of future results.

“In more volatile markets, we feel market participants tend to show more emotion. There is typically a lot more stress in those environments, and we believe that the behavioral patterns we’re looking for become more pronounced.”
**QIM** | **MICHAEL GEISMAR**

**ALTEGRIS:** What are the principal risks involved in pursuing your strategy?

**QIM:** I think the primary risk is that we hold positions overnight—all of our positions are volatility adjusted, and if something happens to the markets that causes volatilities to increase dramatically over a very, very short period of time, we can be at risk. Over time, we are betting that our models are right more often than they’re wrong, but on any given day, the models could be wrong, and if it happens on a day when there are sharp movements in the market—if, for example, the markets are crashing while we’re long stock indices—we have the potential to lose substantial money in those situations. But I think any manager who is holding positions overnight like we are is exposed to the same sort of risk.

**ALTEGRIS:** What role can your strategy potentially play in a diversified portfolio for an investor?

**QIM:** Not only have we been able to generate strong risk-adjusted returns over the past 12 years, but we have been able to do it in an uncorrelated fashion to other managers, whether they are trend following CTAs, short-term CTAs, or more traditional long/short managers. That makes us a potentially good fit for investors with no CTA exposure, as well as for investors who already have CTA exposure. Of course, past performance is not indicative of future results.

Additionally, I think one of the biggest potential advantages when you look at how we fit into portfolios is that we have the ability to trade well in down markets. We historically have a very low correlation to the S&P—in 2008, for example. When the markets are going through a lot of stress and there tends to be more volatility in the marketplace, those are scenarios where we expect our models to perform well. But we don’t need down markets to make money. Following that terrible 2008, the markets rallied in 2009 and we made double digits that year as well.

Going back to my point about performing well in down markets—they usually involve more volatility, and in more volatile markets, we feel market participants tend to show more emotion. There is typically a lot more stress in those environments, and we believe that the behavioral patterns we’re looking for become more pronounced in those periods. So it becomes easier for our models to try to predict what’s going to happen next—how the market participants are going to react.

A lot of times volatility can be our friend. Trend following CTAs typically struggle whenever the markets get choppy and volatile—but we tend to love those types of markets. With our short-term holding period, we’re able to get in and out of our trades much more quickly, and we can actually capture movements on both sides of choppy, volatile markets.

It’s also important to note that, when the markets are trending, most of the trend following CTAs are going to be in the same trades. But on the short-term side, you can get a lot more diversification—you have momentum breakout traders, you have mean reversion traders, and you have a firm like QIM, who can benefit from either those momentum or mean reversion trades. So a strategy like ours can be a great way to diversify a portfolio of CTAs—not to mention, a portfolio of high-beta equity managers as well.

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There is no guarantee that any investment will achieve its objectives, generate profits or avoid losses.
Glossary

**Momentum Breakout.** The starting point at which an upward or downward price trend accelerates; technical traders interpret momentum breakouts as trend confirmations.

**Mean reversion.** The movement of prices to their historical average.

Risks and Important Considerations

It is important to remember that there are risks inherent in any investment and there can be no assurance that any investment product or strategy will achieve its objectives, generate profits or avoid losses. The statements contained herein reflect the opinions of Michael Geismar and QIM, and are not necessarily those of Altegris Advisors, LLC. Certain statements are forward-looking and/or based on market conditions at the time of writing, manager expectations, projections, and information available only to QIM. Such statements may or may not be accurate over the long-term and are subject to change without notice.

The strategy discussed is only one component of the overall strategy utilized in the Altegris Managed Futures Strategy Fund, and should not be the only consideration for investment. Any securities or sectors identified do not represent all of the past or current holdings in the fund or strategy of the manager. Although a certain type of security or sector may have been featured as a top performer, there are other securities that were not mentioned that may have been underperformers. The reader should not assume that any sectors or types of securities discussed were or will be profitable and reference to such sectors should not be construed as a recommendation or investment advice of any kind.

Mutual fund investing involves risk including the possible loss of principal. The investment expertise of the portfolio manager may prove to be inaccurate and may not produce the desired results. The manager’s judgments about the attractiveness, value and potential appreciation or depreciation of a particular security in which the fund invests may prove to be inaccurate and may not produce the desired results. The risks specific to the Altegris Managed Futures Strategy Fund include commodity risk, credit risk, derivatives risk, fixed income risk, foreign currency risk, foreign investment risk, issuer-specific risk, leverage risk, liquidity risk, management risk, market risk, non-diversification risk, short position risk, structured notes risk, taxation risk, underlying pool risk, and wholly-owned subsidiary risk.

**Altegris Advisors LLC is an SEC-registered investment adviser that advises alternative strategy mutual funds that may pursue investment returns through a combination of managed futures and/or other investment strategies.**

**Investors should carefully consider the investment objectives, risks, charges and expenses of the Fund. This and other important information about a Fund is contained in a Fund’s Prospectus, which can be obtained by calling (888) 524-9441. The Prospectus should be read carefully before investing. Funds are distributed by Northern Lights Distributors, LLC member FINRA. Altegris Advisors, QIM and Northern Lights Distributors are not affiliated.**

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